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Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-05 CIAE-00 COME-00 DODE-00
DOTE-00 INR-07 NSAE-00 CIEP-02 FAA-00 PA-02 PRS-01
L-03 /040 W
----------150507Z 049203 /10
R 142229Z JAN 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 2127
INFO AMCONSUL MONTREAL
ALL CANADIAN CONSULATES

UNCLAS OTTAWA 134

E.O. 11652: N/A
TAGS: EAIR, CA
SUBJ: CIVAIR: FINANCIAL PROBLEMS OF CANADIAN CARRIERS PRESAGE ROUTE REDUCTIONS AND FARE INCREASES

1. PRESIDENT CLAUDE TAYLOR ANNOUNCED JANUARY 12 AIR CANADA WILL RECORD A "SIGNIFICANT" NET LOSS IN 1976 DESPITE A SUBSTANTIAL OPERATING PROFIT WHICH, HOWEVER, WILL NOT COVER THE INTEREST ON DEBT. SUSPENSION OF OPERATIONS DURING THE JUNE 1976 AIR TRAFFIC CONTROLLERS' STRIKE COST THE COMPANY SOME $22 MILLION ALONE. IN ADDITION, STEADILY INCREASING DEBT PRINCIPAL RETIREMENTS AND INTEREST PAYMENTS PLUS HIGHER FUEL PRICES WERE BLAMED FOR THE SITUATION. AIR CANADA PLANS ELIMINATE ROUTES TO MOSCOW, PRAGUE AND BRUSSELS, CUT BACK ON DOMESTIC SERVICES (ROUTES AFFECTED NOT YET ANNOUNCED) AND PUT IN FOR ANOTHER ROUND OF DOMESTIC FARE INCREASES (PERHAPS 8.5 PERCENT).

2. CP AIR LIKEWISE EXPECTS ITS 1976 LOSSES WILL BE IN THE VICINITY OF $10 MILLION WITH FACTORS SIMILAR TO THOSE CITED BY AIR CANADA PLAYING A MAJOR ROLE. HOWEVER, PRESS STATEMENT ISSUED IN MONTREAL INDICATES FURTHER ROUTE REDUCTIONS (ESPECIALLY TO SOUTH AMERICA) HAVE BEEN
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DECIDED AGAINST AND EMPHASIS WILL BE PUT ON A WIDE RANGE OF UNSPECIFIED COST-CUTTING MEASURES.

3. FINANCIAL OUTLOOK OF THE REGIONAL CARRIERS IS MIXED, BUT BENERALLY IS CONSIDERED BLEAK. WINNIPEG-BASED TRANSAIR--IN THE THROES OF A MANAGEMENT RESHUFFLE--APPEARS IN THE WORST SHAPE. MORE ROUTE ABANDONMENTS BY ALL REGIONS--EXCEPT

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PACIFIC WESTERN--TO THIRD LEVEL CARRIERS ARE ANTICIPATED.

4. COMMENT: MOT FINANCE SOURCE ESTIMATED FOR TCO THAT AIR CANADA'S REPORTED LOSS WILL PROBABLY BE IN THE VICINITY OF $25 MILLION. THE INTEREST PAYMENTS WILL PROBABLY BE REDUCED FOR SUBSEQUENT YEARS WHEN REORGANIZATION BILL IS PASSED AND DEBT (ON WHICH INTEREST IS CHARGED) IS CONVERTED IN SIGNIFICANT AMOUNT TO EQUITY HELD DIRECTLY BY GOC. CP AIR LOSSES ARE APPARENTLY BEING COVERED BY OTHER OPERATIONS OF CP LIMITED, BUT REGIONAL CARRIERS (WITH EXCEPTION OF PACIFIC WESTERN, OWNED BY ALBERTA GOVERNMENT BUT STILL SUBJECT TO COURT CHALLENGE OF RIGHT OF PROVINCE TO ACQUIRE IT) GENERALLY LACK DIRECT BASE FOR FINANCIAL SUPPORT AND THERE IS TALK OF AMALGAMATIONS IN INDUSTRY.
ENDERS

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Control Number: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
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